A New Phase, Not Just Another Recession

By: Ismael Hossein-zadeh

It is becoming increasingly clear that the financial meltdown of 2008 and the subsequent economic contraction that continues to this day represent more than just another recessionary cycle. More importantly, they represent a structural change, a new phase, the phase of the dominance of “finance capital,” as the late Austro-German political economist Rudolf Hilferding put it.

Although the current domination of our economy by finance capital seems new, it is in fact a throwback or “retrogression” (as financial expert Michael Hudson puts it) to the capitalism of the late 19th and early 20th centuries, that is, the capitalism of monopolistic big business and gigantic financial institutions. The rising economic and political influence of powerful financial interests in the early 20th century led a number of political economists (such as John Hobson, Rudolf Hilferding and Vladimir Lenin) to write passionately on the ominous trends of those developments—developments that significantly contributed to the eruption of the two World Wars and precipitated the devastating Great Depression of the 1930s, by creating an unsustainable asset price bubble in the form of overblown stock prices.

The harrowing experience of the Great Depression, followed by the devastating years of World War II, generated momentous social upheavals and extensive working class struggles worldwide. The ensuing “threat of revolution,” as F.D.R. put it, and the “menacing” pressure from below prompted reform from above—hence, the New Deal reforms in the US and socialist/Social-Democratic reforms in Europe. Combined, these historic developments significantly curtailed the size and the influence of big business and powerful financial interests—alas, only for a while.

As those reforms saved Western capitalism from more radical social changes, they also provided grounds for its regeneration and expansion. By the 1970s, finance capital, headed by major US banks, had risen, once again, to its pre-Depression levels of concentration, of controlling the major bulk of national resources, and of shaping economic policy. Since then, big banks have created a number of financial instabilities and economic crises—

usually through predatory, sub-prime loan pushing or unsustainable debt bubbles. These include the “Third World debt crisis” of the 1980s and 1990s, the 1997-98 financial crises in Southeast Asia and Russia, the tech or dot.com bubble of the 1990s in the U.S. and other major market economies, and the latest, housing/real estate bubble that burst in 2008.

A number of characteristics distinguish the stage of the dominance of finance capital from lower phases of capitalist development. Under liberal capitalism of the competitive industrial era, a long cycle of economic contraction would usually wipe out not only jobs and production, but also the debt burdens that were accumulated during the long cycle of expansion that preceded the cycle of contraction. In the stage of finance capital, however, debt overhead is propped up through its monetization, or socialization, even during a most severe financial meltdown such as that which occurred in 2008. Indeed, due to the influence of the powerful financial interests, national or taxpayers’ debt burden is further exacerbated by the government’s generous bailout plans of the bankrupt financial giants, that is, by simply transferring or converting private to public debt.

In *The Class Struggle in France*, Karl Marx wrote, “*Public credit* rests on confidence that the state will allow itself to be exploited by the wolves of finance.” Today we see more clearly how the “wolves of finance” are hollowing out national treasuries and subjecting governments to unsustainable debt burdens. This explains the near bankruptcy not only of the US Government but also of many of the European states, especially those of Greece, Ireland, Spain, Portugal and a number of East European countries. Proposed government “solution” in all these cases is to have the general public pay for the gambler’s debt—in the form of extensive cuts in essential social programs and drastic reductions in living standards.

A major hallmark of the age of finance capital is domination of the State and/or political process by the financial oligarchy. Bank- or finance-friendly policies of the government have been facilitated largely through generous pouring of money into the election of “favorite” policy makers. Extensive deregulations that led to the 2008 financial crisis, the scandalous bank bailout in response to the crisis, and the failure to impose effective restraints on Wall Street after the crisis can all be traced to Wall Street's political power. Wall Street spent more than $5 billion on federal campaign contributions and lobbying from 1998 to 2008, and its fervent spending on the purchase of politicians continues unabated.

Michael Hudson, Distinguished Research Professor at University of Missouri (Kansas City), aptly calls this ominous process of the buying out of policy-makers by major contributors to their election "privatization of the political process." Paul Craig Roberts, Assistant Secretary of the Treasury in the Reagan administration, likewise argues that the political system "is monopolized by a few powerful interest groups that…have exercised their power to monopolize the economy for the benefit of themselves."

Such sentiments regarding the class nature of the State are corroborations of Vladimir Lenin's characterization of the capitalist state as "the executive committee of the ruling class." Lenin was often scoffed at by the capitalist ruling elites when he made this statement over ninety years ago; they deviously dismissed him as having overstated his case. Perhaps it is time to dust off and read old copies of Lenin's *The State and Revolution*, if only to better understand the incestuous politico-business relationship between the State and the financial oligarchy of our time.

Another hallmark of the stage of finance capital is that, under the influence of the powerful financial interests, government intervention in national economic affairs has come to essentially mean implementation of neoliberal or supply-side restructuring policies. Government and business leaders have for the last several decades used severe recessionary cycles as opportunities to escalate application of neoliberal economic measures in order to reverse or undermine the New Deal reforms. Naomi Kline has called this strategy of using periods of economic crisis to reverse the gains of the New Deal and other reform programs "the shock doctrine"—a strategy that takes advantage of the overwhelming crisis times to apply supply-side austerity programs and redistribute national resources from the bottom up. This explains how under the Bush-Obama administrations the financial oligarchy has been able to use the failure of the Lehman Brothers and the specter of "apocalyptic" failure of other financial giants to extract their gambling losses from the public purse.

It is generally believed that neoliberal supply-side economic policies began with the election of Ronald Reagan as the president. Evidence shows, however, that efforts at undermining the New Deal economics in favor of returning to the old-time religion of market fundamentalism began long before Reagan arrived in the White House. As Alan Nasser, emeritus professor at the Evergreen State College in Olympia (Washington), points out, “The foundations of neoliberalism were established in economic theory by liberal Democrats at the Brookings Institution, and in political practice by the Carter administration.”

Neither President Clinton changed the course of neoliberal corporate welfare policies, nor is President Obama hesitating to carry out those policies. His administration has made available more than $12 trillion in cash infusions, loans and guarantees to the financial industry, but for state governments that are facing massive budget deficits, it has thus far provided only one quarter of 1 percent of that amount in federal stimulus funds—about $30 billion. The White House is sitting by while states across the country lay off workers and slash spending on education, health care and other essential social programs.

The left/liberal supporters of President Obama who bemoan his “predicament in the face of brutal Republican challenges” should look past the president’s liberal/populist posturing. Evidence shows that, contrary to Barack Obama’s claims, his presidential campaign was heavily financed by the Wall Street financial titans and their influential lobbyists. Large Wall Street contributions began pouring into his campaign only after he was thoroughly vetted by the powerful Wall Street interests and was deemed a viable (indeed, ideal) candidate for presidency.

On ideological or philosophical grounds too President Obama is closer to the neoliberal, supply-side tradition than the New Deal tradition. This is clearly revealed, for example, in his *The Audacity of Hope*, where he shows his disdain for “...those who still champion the old time religion, defending every New Deal and Great Society program from Republican encroachment, achieving ratings of 100% from the liberal interest groups. But these efforts seem exhausted…bereft of energy and new ideas needed to address the changing circumstances of globalization. . . .” It is no accident that Mr. Obama has surrounded himself by neoliberal economic experts and financial advisors such as Larry Summers, Timothy Geithner, and Ben Bernanke.

Not only has the major bulk of the Obama administration’s anti-recession assistance been devoted to the rescue of the Wall Street financial magnates, but also the relatively small stimulus spending is funneled largely through the Wall Street (mainly through generous government loans and tax incentives) in the hope that this would create jobs. This stands in sharp contrast to what F.D.R. did in the earlier years of the Great Depression: creating jobs directly and immediately by the government itself.

The main purpose of the administration's (or, shall we say, of the ruling kleptocracy, both Democratic and Republican) strategy of delaying direct job creation is to stall, and fraudulently keep the hopes of the unemployed alive, until the massive supply-side corporate welfare giveaways would eventually begin to gradually trickledown and slowly create jobs. In the absence of compelling pressure from below, this neoliberal scheme of further weakening the working class may eventually succeed. But even if successful, the jobs thus created would be supply-side jobs, subsistence or below-subsistence jobs, which would be grabbed by desperate workers at any price/wage, not union jobs that would pay decent wages and benefits.

Political theatrics within the ruling circles over "how to create jobs" should not mask the fact that delays in job creation are deliberate: they are designed to further subdue American workers and bring down their wages and benefits in line with those of workers in countries that compete with the U.S. in global workers. It is part of the insidious neoliberal race to the bottom, to the lowest common denominator in terms of international labor costs. It is, indeed, an application of the IMF's notorious Structural Adjustment Program of austerity measures that have been vigorously pursued in many less-developed countries for decades—with disastrous results.

It is no accident that President Obama frequently pleads with the unemployed Americans to "be patient," and "keep hope alive." What he really means to say is: "look, we have invested trillions of dollars through bailout schemes and other supply-side recovery measures. So, please be patient and wait until they come to fruition and benefit you through trickledown effects." At least, Ronald Reagan had the honesty and integrity to explicitly defend or promote his supply-side philosophy. Perhaps that is why Barack Obama can be called Ronald Reagan in disguise.

In the wake of the 2008 financial meltdown, many left/liberal economists envisioned an opportunity: a reversion back to the Keynesian-type economic policies. One year later, it is increasingly becoming clear that such expectations amounted to no more than wishful thinking—a dawning recognition that, regardless of the resident of the White House, economic policies are nowadays heavily influenced by the powerful financial interests.

The view that economic policy would be switched back to the Keynesian or New Deal paradigm by default stems from the rather naïve supposition that policy making is a simple matter of technical expertise or economic know-how, that is, a matter of choice—between good or "regulated capitalism" and bad or "neoliberal capitalism." A major reason for such hopes or illusions is a perception of the State that its power is above economic or class interests; a perception that fails to see the fact that national policy-making apparatus is largely dominated by a kleptocratic elite that is guided by the imperatives of big capital, especially finance capital.

Historical evidence shows, however, that more than anything else the Keynesian or New Deal reforms were a product of the pressure from the people. Economic policy-making is not independent of politics and/or policy-makers who are, in turn, not independent of the financial interests they are supposed to discipline or regulate. Stabilization, restructuring or regulatory policies are often subtle products of the balance of social forces, or outcome of the class struggle. Policies of economic restructuring in response to major crises can benefit the masses only if there is compelling pressure from the grassroots. In the absence of an overwhelming pressure from below (similar to that of the 1930s), Keynesian or New Deal economic reforms could remain a (fondly-remembered) one-time experience in the history of economic reforms.

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